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El Salvador

Retail Foods

Annual Update of Retail Food Report -- 2013/14

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Report Highlights:

El Salvador's imports of U.S. consumer oriented products reached a record \$126 million in 2012. Best prospects for U.S. food products include, breakfast cereals, red meats, poultry meat, dairy products, fresh fruit, processed fruit and vegetables. There are 176 supermarkets located nationwide handling approximately 50% of the retail food market.

SECTION I. MARKET SUMMARY

Country Snapshot

- El Salvador is located in Central America, shares borders with Guatemala and Honduras. With a total area of 8,008 square miles (20,742 km²), and a population of approximately 6.1 million people, El Salvador has one of the highest population densities in the region. It is the smallest country in Central America. El Salvador is divided into 14 cities called “Departamentos”; the capital city is San Salvador.
- The U.S. dollar is the official currency. El Salvador enjoys excellent macroeconomic stability, low inflation, and one of the lowest interest rates in Latin America.
- The U.S. is the most important trading partner and 50% of exports and 40% of imports are with this market.
- Imports from neighboring countries (Guatemala, Mexico, Nicaragua, Honduras, Costa Rica) include a large variety of products such as fresh fruit and vegetables, meats, cereals and beans. Other major suppliers that seek to increase their exports to El Salvador include Canada, Chile and Panama.
- The U.S.-Central American-Dominican Republic Free Trade Agreement (CAFTA-DR) entered its 7th year of implementation in El Salvador on March, 1, 2012. CAFTA has created a more active, clear and efficient trade procedure in which consumers are expected to receive all the benefits.
- Like the rest of Central America, El Salvador offers an open market for U.S. good and services. Tariffs are relatively low, and were reduced further with the implementation of CAFTA-DR. The value-added tax (VAT) rate is 13%. There are few import restrictions in this market. Standards are based on ISO Standards, or Colombian, Mexican, and U.S. standards are used as reference. Labeling and testing are not major issues.
- El Salvador has a stable economic system, but has not been excluded from the global economic crisis. This economic environment has forced the country to change import strategies, such as local supermarket chains joining forces with other supermarkets in the region to streamline import volumes and get better prices, thus improving their distribution systems.
- El Salvador’s tourism industry has grown dynamically over recent

years as the Salvadoran government focuses on developing this sector. Last year tourism accounted for 4.6% of GDP.

Source: CIA World Fact book on-line, USDA-FAS, BICO Reports, The Heritage Foundation, Economic Commission for Latin America and the Caribbean (CEPAL) and World Bank.

Advantages and Challenges Facing U.S. Products in El Salvador

Advantages	Challenges
Major retailers have expanded the number of stores and floor space during the last few years. The trend is to continue their geographical expansion.	The shift from essential to high-quality food continuous. A good number of consumers opt to trade down to less expensive option of basic products due to economic difficulties.
Information and technology have become strong tools for food marketing. Using product bar codes and scanners at point of sales have been fundamental to collaborative planning, forecasting and replenishment aimed at increasing profitability and stock control.	Market leaders are investing in construction of modern shopping centers in which supermarkets and hypermarkets are the anchor points. Investment also includes state of the art technology, logistics, remodeling and improving service areas.
Exposure to US media as well as language, cultural, and commercial ties with the United States all contribute to consumers having a positive attitude toward U.S. products	High marketing costs (advertising, discounts, sampling, etc) are necessary to promote new market products.
The tourism and restaurant sectors are growing and dynamic sector for U.S. exports.	Overall, Salvadoran economy remains very susceptible to any world event that may disrupt tourism and investment (i.e. the global economy)
The major retailers are developing increasingly sophisticated distribution systems, which will provide more space and better cold chain infrastructure for high value frozen and refrigerated imports	Security is a major concern in El Salvador and the local authorities still need to improve their security programs.
Supermarket chains have gained greater negotiation power with manufacturers, giving them access to continuous price promotions and marketing activities.	Category management practices include charging slotting fees for products, which are absorbed by the supplier.
Most of the products stocked on the shelves of local retail stores are imported	The limited cold storage transportation and distribution logistics network is still a limiting factor for the future development of the food sector.
CAFTA's entry into force opens a number of good market opportunities including the use of tariff rate quotas.	Central American harmonization of regulations could result in barriers to trade for U.S. products. Problems obtaining a Certificate of Free Sale make it difficult to register U.S. food products.

II. ROAD MAP FOR MARKET ENTRY

A. SUPERMARKETS, SUPERSTORES, HYPERMARKETS, CLUB AND WAREHOUSE OUTLETS

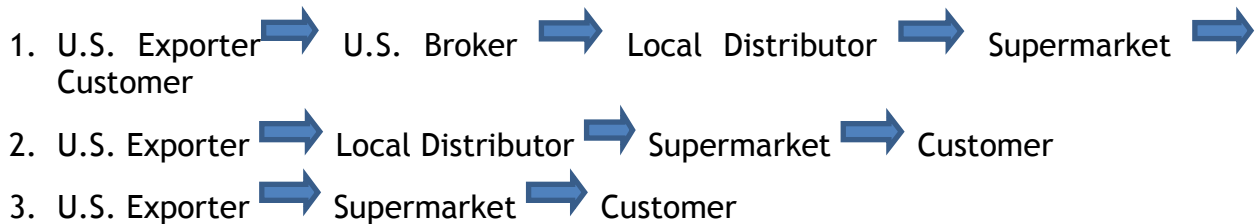
Entry Strategy

- ❖ U.S. exporters can approach Salvadoran buyers through a direct importer such as a supermarket chain, a wholesaler/distributor or through a specialized importer. Regardless of strategy, U.S. exporters need a local partner to educate and update them about market consumer trends and development, product registration procedures, and business practices.
- ❖ Wholesalers/distributors and importers play an important role with Salvadoran's supermarket retailers. Although supermarkets import through consolidators, the bulk of supplies come from local agent or importers. Large supermarket retailers are more likely to import directly from U.S. suppliers.
- ❖ Local importers are a must when selling U.S. food exports to El Salvador's convenience stores or traditional retail outlets.
- ❖ To appoint a local distributor a U.S. firm has to make sure that the local distributor has a good credit standing (the U.S. Department of Commerce offers a Gold Key service that provides information on local importers), sign a contract with a local lawyer.
- ❖ To introduce a new product to the Salvadoran market, purchasing managers suggest doing a promotion that includes not only product information, but sampling as well. There have been experiences where even well-known U.S. food brands have not sold because customers were unfamiliar with the product. The same is true for frozen products which are just beginning to appeal to the Salvadoran customer and are viewed by some marketing experts as an area to be developed.
- ❖ Attend food trade shows to meet Salvadoran buyers. Marketing managers attend U.S. trade shows regularly and believe that this is the best way to find new products to introduce to this market.
- ❖ Point of Sale (POS) material is very important to promote food products in this market. In addition, advertising through newspapers, radio and television is recommended.
- ❖ Most large importers/distributors are members of the **Salvadoran Distributors Association - ADES** (ADES; <http://www.adess.org.sv>). This association manages the

relationship of its members with local retailers, wholesalers and supermarkets and can provide a good starting contact to enter the market.

Distribution Channels

Three distribution trends operate in the Salvadoran market:



Supermarket Profile:

Supermarkets in El Salvador are reticent to release exact sales information. Although a number did provide information, they requested that the information provided be kept confidential. Therefore, sales have been categorized as follows:

- A: Less than 10 million
- B: \$11 - \$25 million
- C: \$26-\$75 million
- D: \$76 - \$100 million
- E: \$101 - \$150 million
- F: More than \$150 million

Owner Group	Supermarkets, Hypermarkets and Club Outlets	Current Stores	New Stores 2012-2013 (Estimate)	Estimated sales
Calleja, S.A.	Selectos	74	5	F
	De Todo 1/	2	0	A
	Selectos Market 2/	15	4	B
Wal-Mart Stores	Walmart Supercenter	4	2	F
	Despensa de Don Juan	25	0	E
	Despensa Familiar 1/	52	2	B
	Maxi Despensa	3	1	A
Joint Venture U.S./Salvadoran business	Price Smart	2	0	F
TOTAL		176	14	

Source: Information provided by supermarkets. For those who declined to release sales information, an estimate was made by FAS, San Salvador.

1/ Smaller popular area stores

2/ Medium size stores located in middle lower class areas

Retail Sector

The market expectations for retailing remain positive as it continues to be a key area of the Salvadoran economy, supported by employment, financial stability and expansion of consumer credit.

Hypermarkets/supermarkets, convenience stores, coexist with the traditional corner grocery stores and open-air markets.

There are two dominant supermarket chains in El Salvador: Supermercado Selectos and Wal-Mart Mexico - Central America.

Selectos Supermarket is owned by the Calleja Group. This local supermarket chain is made up by 91 stores, with its slogan “Nobody knows you better” (“Nadie te conoce tanto”) keeps a fierce competition among other retailers. In 2008, Calleja, together with nine Central American and Panama companies joined in a strategic alliance funding Supermercados de Centroamerica y Panama - SUCAP (Panama and Central American Supermarkets) SUCAP groups 16 different supermarket chains that combined add up 281 stores in the region, and annual sales raises to more that \$2,200 million dollars, said Carlos Lemus, SUCAP Executive Director.

SUCAP plans to buy bulk all those product that the companies have in common, as a way to get better prices, benefit the consumer and continue to be competitive. The members of SUCAP are: El Rey, El Machetazo, Super 99 in Panama; Unisuper/La Torre in Guatemala; Perimercados, Automercados in Costa Rica; La Colonia in Nicaragua; La Colonia in Honduras and Super Selectos and Super Market from El Salvador.

Wal-Mart Mexico - Central America, is the largest retailer in the region with more than 450 stores. In El Salvador there are 84 stores in three different formats: Despensa de Don Juan, Despensa familiar and Hiper Paiz. In September 2005, Wal-Mart Stores Inc, acquired 33 percent interest in Central American Retail Holding Company (CARHCO) from Dutch retailer Royal Ahold NV. In March 2006, Wal-Mart increased its interest to 51%, and CARHCO was changed to Wal-Mart Central America. In December 2009, Wal-Mart Mexico announced the acquisition of Wal-Mart’s operations in Central American from Wal-Mart Stores. In early 2010, the transaction was completed and Wal-Mart Mexico became Wal-Mart Mexico - Central America.

The Wal-Mart chain has implemented the strategy “Every Day Low Cost”, seeking deep discounts, especially from suppliers of high rotation products. Everyday Low Prices (EDLP, for the acronym), involves offering consumers the lowest market prices for all products. They also made changes to their store outlay to provide a better shopping experience and lure new customers to their retail outlets.

B. CONVENIENCE STORES, GAS MARTS

There are three chains of convenience stores: Flashmart, Puma, Starmart-Food Marts, El Camino which belong to UNO, Puma, Texaco and Alba Petroleos gas companies.

Distribution Channels

- Distribution is mainly through local distributors, direct imports are minimal.

Entry Strategy:

- New products have to be presented to the purchase manager of each chain and a local distributor must be appointed.
- Purchasing managers should be invited to the U.S. Fairs and food product exhibitions.
- Customers need to be familiar with products; therefore, new products have to be introduced with a promotional campaign that includes sampling.
- Gas Mart stores are readjusting their line of products. Besides snack foods, candy, soft drinks, ready-to-heat and ready-to-eat products, dairy products and cereals, they are focusing on fast food sales. The gas marts are potential markets for new products.

Sub-Sector Profile:

As in the case with supermarkets, sales have been categorized as follows:

A: Less than 10 million

B: \$11 - \$25 million

C: \$26-\$75 million

D: \$76 - \$100 million

E: \$101 - \$150 million

F: More than \$150 million

Retail Name and Outlet Type	Ownership	No. of Outlets	Locations (city/region)	Estimated Sales (\$Mil)
FlashMart	UNO Petrol /1	28	Nationwide	B
Puma	Puma /2	89	Nationwide	A
Starmart, Food Marts	Texaco U.S.	36	Nationwide	B
El Camino	Alba Petroleos de El Salvador/PDV Caribe, S.A. /3	32	Nationwide	B

Source: Information provided by gas distributors.

/1 Shell sold all the gas stations to the Honduran UNO Petrol a division of Grupo Terra.

/2 ESSO Standard Oil S. A. Limited - El Salvador sold all the gas station Puma Energy.

/3 Alba Petroleos is owned by the mix economy society made of ENEPASA a group of FMLN municipalities and Petroleos de Venezuela Caribe, S. A.

- Products also come from Canada, Central America, Colombia, Argentina, Chile Uruguay and Europe.

- 85% of beer sales are domestic product, 5% from the U.S., 8% from Mexico and the rest from Europe.
- Most convenience stores located in the metropolitan area have additional services and products such as phone cards, bank tellers, and car wash and tune-up services.
- Store sizes vary; the largest is approximately 1400 square feet and, the smallest 430 square feet.

C. TRADITIONAL MARKETS, “MOM AND POP” SMALL INDEPENDENT GROCERY STORES AND WET MARKETS

- Traditionally, the public markets have been the main suppliers of fruits, red meat, vegetables, poultry, eggs, pork and fish.
- There are seven public markets in San Salvador and at least one in each town.
- Security has become an important issue when determining where to make their food purchases. Supermarkets offer a more secure environment for shopping than public markets.
- The trend is to purchase in supermarkets, especially for the upper and middle classes. Lately, there has been a substantial increase of supermarket customers from the working class and supermarket are opening in lower income areas.
- Only a few U.S. foods products are sold in these markets. U.S. fruits are very popular.
- The majority of food products sold are locally produced or come from other Central American countries.
- The number of small independent grocery stores in each neighborhood varies from 10 to 100 depending on the size of the neighborhood. These are not designed for the customer to easily see the product and select what they need. Sales are made mostly by product name or category, therefore, it is not recommended to develop a strategy to enter this market. The same applies to the rest of the markets reviewed in this section.

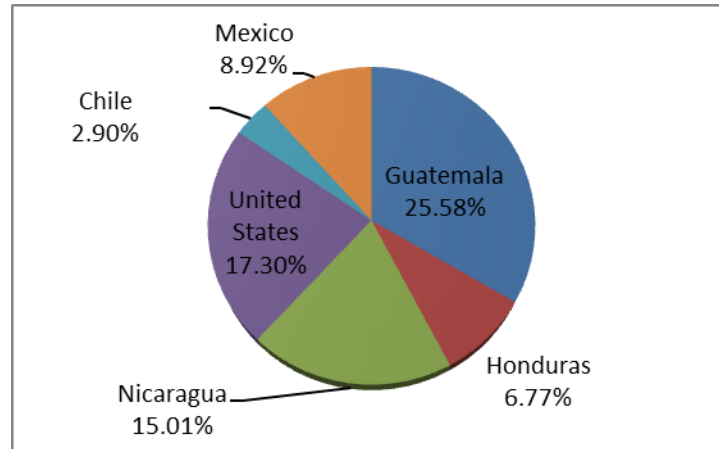
III. COMPETITION, CONSUMER-READY PRODUCTS

- The Central American Countries, Mexico and Chile are the main competitors for the U.S. in this market.
- El Salvador is a signatory to the Agreement on Central American Tariff and Duties and a member of the Northern Triangle (commercial agreement with Honduras and Guatemala) and the Central American Common Market. In addition, El Salvador has signed a free trade agreement with Mexico, Chile, Dominican Republic, Canada, the U.S., Panama and recently with the European Union (EU).
- In 2012, the U.S. share of the consumer-ready market reached 17.30%. Guatemala accounts for 25.58%, Mexico 8.92%, Nicaragua 15.01%, Honduras 6.77%, Costa Rica 9.71% and Chile 2.90.
- Powdered milk is mostly imported from New Zealand, the Netherlands and Australia. In addition the New Zealand Dairy Board has built a local distribution and packaging facility at a cost of approximately \$5.0 million. Fluid milk is locally produced and also imported from Costa Rica, Honduras and Mexico in UHT long-life

packaging. There are also donations of powdered milk for the poor which mainly come from the EU.

- In 2012, The Calleja group built a processing facility and storage center as well as open 12 new stores with a cost of \$40 million. The construction work for the meat and poultry processing facility, which will also have capacity for fruit and vegetable packaging, has already begun near the capital city, San Salvador.
- Livsmart a health drink company, founded under the name of Bon Appetit in 1981, was acquired in 2009 by the group Cabcorp (The Central America Beverage Corporation). Today, Livsmart is the anchor bottler of PepsiCo for Central America and part of the Caribbean making more than 130 million in annual revenue from drinks made without preservatives.
- Mexican juices and nectars company Jumex has invested \$20 million in its processing plant in El Salvador, which has been operating since the beginning of 2009 as a distribution center for the region. This plant, which will also manufacture its own packaging, is surrounded by 42,000 square meters of land. Jumex Centroamericana, the regional division of Grupo Jumex, has a portfolio of more than 12 different beverage brands as well as a presence in Central America, Panama, Dominican Republic and 12 other Caribbean countries.
- CAFTA-DR has also attracted foreign investment to El Salvador including companies such as CALVO tuna processor from Spain.
- Another important industry in this sector is meat processing. There are approximately 10 companies which are members of the Salvadoran Meat Processors Association (ASICARNE). Imports of U.S. pork meat by this sector have grown tremendously over the last five years (\$11,767 million in 2012), due to the fact that the Salvadoran population is a large consumer of sausage products.
- The Salvadoran market may be significantly larger than portrayed by U.S. export data. A high percentage of El Salvador's imports of consumer-oriented products are actually registered as imported by Guatemala. The main reason is that many containers come through Guatemala's Santo Tomas port and even though they are in-transit to El Salvador, local customs officials tally them as Guatemalan imports. Particularly close links with the United States are evident by the strong commercial relationship between both countries.

CONSUMER ORIENTED AGRICULTURAL PRODUCTS % SHARE



IV. BEST PRODUCT PROSPECTS

Top 10 best product prospects imports from the United States (Millions of U.S. Dollars)			
Product Description	2011	2012	% Change 2011/2012
Snack foods	11,875	12,316	3.71
Red Meat	6,516	8,130	24.77
Poultry Meat	8,614	11,767	36.60
Fresh Fruit	17,543	17,139	-2.30
Soybean meal	64,014	78,423	22.51
Processed Fruit and Vegetables	14,494	16,544	14.14
Wheat	89,319	100,365	12.37
Pork Meat	8,614	11,767	36.60
Rice	31,033	31,505	1.52
Dairy Products	14,088	14,452	2.59

Source: USDA/FAS BICO REPORT

A. Products not present in significant quantities, but which have good sales potential:

- ✓ Frozen food are growing in demand, and are expected to continue an upward trend
- ✓ Low fat, low cholesterol
- ✓ Dairy products
- ✓ Beef
- ✓ Wine
- ✓ Pet foods
- ✓ Stone fruit
- ✓ Sardines
- ✓ Cookies
- ✓ Pancake mixes

- ✓ Certain processed foods continue to see strong growth as more people join the work force and eat out of home. Especially promising products are convenience and fast foods, out-of-home foods (snacks, ramen style soups, etc., which are consumed more by lower-income households and young consumers), healthy and light foods.

V. POST CONTACT AND FURTHER INFORMATION

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